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TAGS: EFIN ECON EINV AR
SUBJECT: Argentina: GoA Pressures IDB for New Financing

Refs: Buenos Aires 1396, 1395, 1374, 1220

Summary

¶1. (SBU) IDB President Luis Moreno noted growing GoA fears that global financial turmoil will exacerbate Argentina's already restricted access to international credit. Following his meeting in New York with President Christina Fernandez de Kirchner (CFK), the GoA has requested that the IDB increase loan approval to US$2 billion/year with accelerated disbursements. IDB local ResRep Daniel Oliveira reports "informal" IDB guidance to limit new credit approvals to $1.5 billion per year due to strained IDB capacity. According to Moreno, the IDB Board is reluctant to change current lending policy toward Argentina. Olivera noted GoA pressure on the IDB to re-initiate budget (vs. project) financing, but said that any new IDB Policy-Based Lending would require an extensive macro-economic review of the GoA economic policy framework that will likely not be positive. Instead, the local IDB office is focusing its energies on working with the GoA Ministries of Social Development and of Labor to develop a $1.6 billion two-year project to revamp Argentina's social safety net programs. On recent GoA initiatives to normalize relations with bond holdouts, Moreno said that Economy Minister Carlos Fernandez told him that holdouts representing more than half of outstandings were "on board" with the Barclays/Citi/Deutsche bank proposals. Moreno commented on a growing consensus that Argentina's falling commodity prices augur difficult economic challenges for Argentina, a topic that will doubtless be on the minds of GoA participants in October 12-14 Bank /Fund annual meeting in Washington. End Summary.

GoA Requests Accelerated IEB Disbursements

¶2. (SBU) IDB President Luis Moreno met with Ambassador October 7 during a brief visit to Buenos Aires on his way to Paraguay to participate in the hemispheric "Vital Voices" conference here (septel). Moreno noted growing GoA fears that global financial turmoil will exacerbate Argentina's already restricted access to international credit, and he speculated that the IDB will play a more prominent role in the broader WHA region as the international financial crisis unfolds and private sector credit availability tightens. He said that, following his late September UNGA-margin meeting in New York with President Christina Fernandez de Kirchner (CFK), the GoA has requested the IDB increase loan approval to US$2 billion/year with accelerated disbursements. According to Moreno, the IDB Board is reluctant to change current lending policy toward Argentina.

¶3. (SBU) In a September meeting with EconCouns, IDB ResRep Daniel Olivera (protect) noted that, while $2.5 billion in new project loans were approved by the IDB Board in 2007, his Argentine IDB mission is under "informal" guidance from its Washington headquarters to limit new approvals to $1.5 billion per year for the

next few years, largely because increased demand for IDB funding throughout the hemisphere is straining Bank capacity. Oliveira said that IDB disbursements to Argentina in 2008 to date total $1.1 billion while GoA re-payments in 2007 totaled some $1 billion in principal and $500 million in interest. With a total current IDB exposure to Argentina in the $6 billion range, the IDB, Oliveira said, has an informal agreement with the GoA to keep new disbursements and payment roughly cash neutral.

Re-Vamping Argentina's Social Safely Net

¶4. (SBU) Olivera noted to EconCouns continuing GoA pressure on the IDB to reinitiate budget (vs. project) financing, but said that new IDB Policy-Based Lending (PBL) programs are unlikely, since they would require an extensive macroeconomic review of the GoA economic policy framework that would not be positive. Instead, the local IDB office is focusing its energies on working with the Ministries of Social Development and of Labor to develop a wholesale revamp of the nation's social safety net programs: this would involve the IDB

funding a $1.6 billion, two-year program (to be presented to the IDB Board in 2009) to reorganize and rationalize "Family Plans" currently funded through the Social Development Ministry; phase out the "Head of Household" programs currently funded by the World Bank (and considered a vehicle for political patronage to provincial mayors and union groups);, and rework both unemployment insurance (under the Ministry of Labor) and the part of public pension dedicated to the poor (currently under social security administration ANSES).

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Moreno on GoA Bond Holdout Normalization & Crisis
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¶4. (SBU) On recent GoA initiatives to reenter the international credit markets by paying down Paris Club arrears (Ref A) and normalize relations with bond holdouts (Refs B,C), Moreno said that Minister Carlos Fernandez had told him that holdouts representing more than half of outstandings (roughly $10 billion of $20 billion in original principal) were "on board" with the Barclays/Citi/Deutsche bank proposals. (This accords with information Post has received independently from local bankers.)

¶5. (SBU) Moreno commented on growing signs of private sector antagonism towards the GoA based on populist economic policies driving inflation, bad regulation, and strong and combative labor unions. Ambassador noted that new Chief of Cabinet Sergio Massa is seen here as an advocate steering GOA policy-making towards more productive interaction with Argentina's private sector. Moreno commented on a growing consensus that Argentina falling commodity prices augur difficult economic challenges for Argentina, a topic that will doubtless be on the minds of GoA participants in October 12-14 Bank/Fund annual meeting in Washington. Moreno noted that, on his recent trip to Europe to meet with Nordic shareholders, there was a growing consensus on the need for governments to take quick, coordinated action is essential to stabilize markets and build confidence. Similar coordination and consensus building will be needed in Latin America, he concluded.

Comment

¶6. (SBU) The GoA sees additional multilateral development bank resources for Argentina, including direct budget lending, as an important component of a funding package to see the nation through 2009/2010 spikes in debt maturities (Reftels). But Argentina already represents the IDB's second largest exposure after Brazil, and the global financial crisis will doubtless expand calls for limited IDB funding resources by other hemispheric members. Moreno's statement that the IDB Board is reluctant to change current lending policy toward Argentina is telling. It appears unlikely that the large quantities of new front-loaded disbursements the GoA is seeking will be forthcoming.

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